

Market Update on Interbank Offered Rate Reforms (Updated in August 2021)

The Alternative Reference Rates Committee (“ARRC”)

On 29th July 2021, the ARRC has [formally recommended CME Group’s forward-looking SOFR Term Rate](#), following the completion of a key change in interdealer trading conventions on 26th July 2021. It is a major milestone in the transition away from U.S. dollar (USD) LIBOR to alternative reference rate (“ARR”). The formal announcement was preceded by the ARRC’s publication of loan [conventions](#) and [use cases](#) for how best to employ the SOFR Term Rates. In addition, the ARRC has released a [factsheet](#) outlining key steps in conjunction with the development.

The forward-looking SOFR Term Rate is administered by CME Group Benchmark Administration Limited (“CBA”). CME Group is currently publishing one-month, three-month and six-month Term SOFR. For details, please refer to [CME’s website](#).

Why is this relevant to you?

As per the FCA’s Announcement on 5th March 2021, the LIBOR benchmarks settings will cease to be provided by any administrator or no longer be representative immediately after the relevant dates. To facilitate the LIBOR transition, market participants should use Alternative reference rates (“ARRs”) such as alternative “risk-free” rates (“RFRs”) instead of LIBOR when LIBOR is permanently discontinued. The ARRC’s formal recommendation of SOFR Term Rate helps market participants to accelerate the transition process as the market participants now have all the tools they need to transition to ARR. It is suggested that everyone with exposure in USD LIBOR to take actions immediately and based their new contracts on forms of SOFR.

It is expected that there will be increasing use of an ARR in place of an IBOR for bank’s products and services. This may have a material impact on the economic value of the relevant financial transactions and hedging arrangements including liabilities and the value of underlying assets with reference to LIBOR.

For more information

If you would like more general information on interest rate reform and IBOR transition, please refer to the published information from regulators, working groups and other industry bodies, including:

- U.S. Alternative Reference Rates Committee (ARRC)
<https://www.newyorkfed.org/arrc>
- European Central Bank (ECB)
https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/WG_euro_risk-free_rates/html/index.en.html
- Bank of England
<https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor>
- Financial Conduct Authority (FCA)
<https://www.fca.org.uk/markets/benchmarks>
- Bank of Japan
<https://www.boj.or.jp/en/paym/market/sg/index.htm/>
- Swiss National Bank (SNB)
https://www.snb.ch/en/ifor/finmkt/fnmkt_benchm/id/finmkt_reformrates
- Treasury Markets Association (TMA)
https://www.tma.org.hk/en_market_LIBOR.aspx

- Financial Stability Board (FSB)
<https://www.fsb.org/work-of-the-fsb/policy-development/additional-policy-areas/financial-benchmarks>
- International Swaps and Derivatives Association (ISDA)
<https://www.isda.org/category/legal/benchmarks>

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